UNITED STATES BANKRUPTCY COURT

SOUTHERN DISTRICT OF NEW YORK

Case No. 08-13555-scc Adv. Case No. 08-01420

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In the Matter of:

LEHMAN BROTHERS HOLDINGS INC.,

Debtor.

- -x

In the Matter of:

LEHMAN BROTHERS INC.

Debtor.

- -x

United States Bankruptcy Court

One Bowling Green

New York, New York

August 16, 2016

10:05 AM

B E F O R E:

HON. SHELLEY C. CHAPMAN

U.S. BANKRUPTCY JUDGE

ECRO: F. FERGUSON

HEARING RE Status Conference -- State of the LBHI Estate

HEARING RE: Adversary proceeding: 08-01420-scc Lehman Brothers Inc. Status Conference -- State of the LBHI Estate

Transcribed by: Nicole Yawn

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P R O C E E D I N G S

THE COURT: How is everyone today?

Good morning, Ms. Marcus.

MS. MARCUS: Good morning, Your Honor. Jacqueline Marcus, on behalf of Weil, Gotshal & Manges, on behalf of Lehman Brothers Holdings Inc. and its affiliated debtors.

Your Honor, as you well know, we're here for the 100th omnibus hearing today. There is not very much on the calendar. We have just the two state of the estate presentations.

THE COURT: Okay.

MS. MARCUS: But since this is a somewhat momentous occasion and we're nearing the eighth anniversary of the cases, I thought I'd take the opportunity to just say a few words.

Because of where we are with the litigation, we sometimes forget that these cases have not only been about derivatives and big banks, flip clauses, and safe harbors. Of course, we had the usual issues in any Chapter 11 case, the automatic stay, treatment of claims, executory contracts, plan issues, distributions to creditors, all rendered much more complicated because of the number of cases -- the number of -- sorry -- the size of the cases and the number of creditors. We also have had many other issues, though, that we sometimes lose sight of, given the

passage of time.

We've had fascinating cross-border issues. We've unwound the complex relationship between LBHI and LBI, the broker/dealer. We've had many major transactions approved by the Court, Lehman's Archstone investment, mistreatment of Aurora Bank, the sale of Neuberger Berman, in addition to the main transaction, which has gotten so much attention early on.

We have also had competing Chapter 11 cases. We've had the SunCal litigation and the Moonlight Basin Ski Resort that was in Chapter 11 in, I think it was, Montana. We've even had Canyon Ranch, which may be rearing its head again, --

THE COURT: It has so reared, yes.

MS. MARCUS: -- from what I understand.

THE COURT: What these cases have demonstrated, however, is that Chapter 11 and the statutory scheme established by Congress really does work, even if it takes time and extraordinary effort on behalf of everybody involved.

On a personal note, a lot has changed since the cases were filed eight years ago. Garrett Fail, my partner, became a partner at Weil. The baby lawyers who started with us at the beginning of the case are now our senior associates. Several of my partners at Weil, including Lori

Fife and Richard Krasnow and Shai Waisman -- even though Shi's not retired -- have retired. And, of course, we lost our beloved Harvey Miller.

In closing, Your Honor, I'd just like to thank you and Judge Peck for your time, attention, and devotion to these cases. And we hope we'll get them wrapped up soon.

THE COURT: Thank you, Ms. Marcus.

You mentioned Judge Peck. There's someone who looks remarkably like him sitting in the back of the courtroom.

Judge Peck, would you like to be heard?

JUDGE PECK: Okay.

(Laughter)

THE COURT: Well, as you said, Ms. Marcus, this is, in fact, a very special day. The mention of Harvey Miller makes me a little choked up. His name still appears on our listing, our docket listings when I look at what's on the calendar. And this case very much was and is a tribute to him, folks at your firm, folks in many of the other firms that have handled it over the years. And it is and stands as tribute to my friend, Judge Peck, who, notwithstanding the fact that he represented to me that the case was pretty much over when he left two-and-a-half years ago, --

JUDGE PECK: Right.

THE COURT: -- I'm delighted to have him here in

the courtroom today. As time has gone by, from this side of the bench, I have come to appreciate even more than I did previously what a monumental truly, literally unprecedented situation he faced. I have come to appreciate his wisdom, his judgment, his patience, his chops, I guess, is the word in handling a case like this and getting to the bottom of the issues. And I couldn't be more excited and honored to have him in the courtroom today.

Judge Peck?

JUDGE PECK: I have no prepared remarks.

THE COURT: Now it's truly a -- now it's a truly momentous occasion.

(Laughter)

JUDGE PECK: But I -- first I want to thank you, Judge Chapman, for the invitation to be here today. And I'd like to thank the professionals who were involved in this case from the beginning through to the present. I rise as an omnibus amicus. And I recognize that the process of bankruptcy is not just about the headlines in Bankruptcy Law 360 or the Wall Street Journal or other publications that professionals read. It's about hard work that goes on behind the scenes, not just the hearings that get the headlines, but the work of partners, associates, paralegals, and staff at each of the major firms involved in these cases.

I have a particular appreciation for this now. As I think many know, I was in private practice in a large firm before I became a judge. I'm in practice now with a large firm as a retired judge. And I think that being on the bench tends to, after a while, insulate the judiciary from the hard work that gets done every day just in producing binders that show up in chambers. That the work that has to be done to achieve a compromise is beyond the mere concept of the compromise, but goes to the details that often require enormous time and effort.

In hearing Jackie Marcus recite some of the headlines of the case, I appreciate having a personal association with many of them. But what I wanted to observe publicly is that it's not just the headlines. It's the back pages.

And to be here at the hundredth omnibus demonstrates that the U.S. insolvency system, particularly Chapter 11, and even in the most unbelievably difficult case ever, works, works well. And that's because of the symbiosis that exists between the skilled bench and the skilled bar. It's a pleasure to be here today.

THE COURT: Thank you, Judge Peck. I'm going to now turn to the state of the estate presentations. And I may have some more things to say after that. Thank you.

JUDGE PECK: Thank you.

MR. CANTOR: Are there enough copies?

THE COURT: I don't think we have a copy, Mr. Cantor. You even achieved the compromise over which case goes first, I see.

MR. CANTOR: Yeah, they just said I go first. So I just stood up.

It is a monumental occasion the hundredth omnibus objection.

THE COURT: It's the one hundredth omnibus hearing.

MR. CANTOR: Hearing.

THE COURT: We're up to the -- almost the six hundredth omnibus objection, right, Ms. Marcus?

MS. MARCUS: Six thousandth.

THE COURT: Six thousandth?

MR. CANTOR: Right. Your Honor, you know, we at the estate now all sort of showed up after the case was completed to carry out the plan's mandate, which is what we're doing. But I would -- I can say, having practiced for a long time before this, looking back on what everybody achieved during the case, it was truly, truly monumental to develop the plan that was developed now that I can see what was there as we get unwound, there's no doubt that the quality of the effort was extraordinary by everybody and couldn't be done without the -- without Judge Peck and

without the attorneys involved in the case at the time. So that was a great job.

You know, Mr. Giddens at LBI -- they filed their state of the estate sort of listing all the achievements throughout the case. And I think that clearly exemplifies what a wonderful effort that Mr. Giddens and his team expended, too. So that was a laudable record I found in that presentation. It certainly shows how much he's accomplished.

What we've tried to do with the state of the estates is stay focused on what we've done since the last presentation and what remains to be done. And I had mentioned before in this court, it remains a mega-case from our perspective going forward. Not to say everything that needed to get done until now had been done, but there's still a lot to do, you know.

I mean, if you think about what's been done since 2009 when the -- at the bar date, there was over a 1,200,000,000,000 of claims in the estate. And then it went down to about 54,000,000,000, which is a big number, not when you compare it to 1,200,000,000,000 remaining. There were more than 64,000 claims filed. Went down to 857, which, you know, in hindsight sounds not so -- not so big. But, you know, looking forward, there's still a lot of work to do.

Since the company's emerged from bankruptcy, the plan administrator had distributed over $109 billion. And again, this could not have been possible, even since 2012, without a tremendous effort and an awful lot of time spent here working through things. So let me -- I'll turn to the presentations and get through that.

THE COURT: Please.

MR. CANTER: So, you know, we started this, as you have observed, and, you know, we have taken the perspective there is no Lehman any more. It's just the plan administrator looking to carry out the mandate of the plan. You know, we're focused on monetizing assets, maximizing distributions to creditors, and fairly resolving disputed claims.

And we do our best to analyze each of their many claims, come to do what we think the fair outcome is. We're in an adversarial system, so we're left with counterparties who may not always agree with what we think fair is. And everybody's working real hard to get to a solution.

Since our last plan update, which was June of last year, we have distributed $10.2 billion, which I mentioned before was a total cumulative distribution of $109.8 billion. We have resolved 14 --

THE COURT: Do you know what percentage recovery that represents at this point, Mr. Cantor?

MR. CANTOR: Well, I think -- at the holding company?

THE COURT: At the holding company.

MR. CANTOR: It's about 36 cents we've gotten out the door.

Is that right?

About 36 cents. And, you know, there's some amount to come, which the market is investing in.

So since the last update, we resolved $14.1 billion of claims. And that brings the total claims resolved since the plan administrator started at $139 billion of claims resolved. But nevertheless, the case remains a mega-bankruptcy case.

There's about 10 billion of assets left that we need to monetize. Most of that is in the disputed claims reserve. So the lion's share of the focus of our effort is in resolving the remaining claims, although there are some assets left to monetize.

The assets are in the real estate interests, interests in private companies, and also recoveries from our non-controlled foreign affiliates. And that $10 billion excludes potential litigation recoveries, which we generally don't estimate what the value is. It'll be what it'll be.

There is a real focus on trying to influence, to the extent we can, the foreign non-controlled affiliate

receiverships, because there's an awful lot of value in trying to bring back here. We need to accelerate that, to the extent possible.

As I mentioned, there's about 850 claims remaining, seeking over $54 billion. And at this point, those are the claims that are likely going to require a fair bit of judicial resources and time. And we appreciate you and your chambers' efforts to accommodate all the time that we're going to need. And we'll get to the schedule later.

The biggest matters we still have disputes on are the derivatives claims with Citibank and SCS (ph). And with JPMorgan, there's one matter remaining, which is resolving what we call the deficiency claim. Of the $54 billion, 37 billion of that reserve relates to the private label RBS claims. Those are the -- what have been the 405 trusts.

THE COURT: Yeah.

MR. CANTOR: Now, we're down to about two-thirds of that. I think where we have a protocol in place, the trustees have submitted 94,080 claims. And we're going to need to find a way to get through that. We'll talk more about that as we get to the presentation.

THE COURT: Okay.

MR. CANTOR: So needless to say, this is going to require a fair bit more time and judicial resources to resolve these remaining claims. If you flip to page 3, it's

just a chart that sort of lays out --

THE COURT: There's no more low-hanging fruit is what you're trying to say.

MR. CANTOR: Does not appear to be a lot of easy ones. But you never know.

So at page 3, we just put out in a chart format -- you can see we have -- we have the D-8 (ph), which is the distribution last October, where we got 5,700,000,000 out. And D-9, which was the April distribution. We distributed 1,500,000,000. And I know you'll recall there was a large sum of money that we were bringing in from a settlement that JPM's derivative claims --

THE COURT: Yes.

MR. CANTOR: -- and the collateral case. And that got held up by some appeals, which we were able to resolve. And we were able to do an interim distribution, which is atypical. It's something we obviously want to try to avoid. But you could see, with 2,800,000,000 out, it was worth getting out as best we could. And we appreciate the Court's time and assistance in helping us achieve that interim distribution. So you can see the plan administrator, the new -- has gotten out 109,761,000,000.

And on the claims side, there's just a -- you know, a chart representing whatever I said is -- $14.1 billion in filed amount of claims have been resolved since

the last presentation since the D-7. And you could see back on the right, we left with 54 billion. And like I said, 37 billion of that is the RBS private label trustees. A bunch of billions is in the C.S. and Citi claims.

THE COURT: Right.

MR. CANTOR: And we'll get to the Syncora claim, which was 1,300,000,000 of resolved -- we have resolved that.

THE COURT: Okay.

MR. CANTOR: So that number of 54 does not take that into account, but we'll -- and we'll get to that. And there's two other resolutions coming up that we've got done since the time we finalized this.

So on page 5, you know, as the -- as the litigated move forward -- moving forward, you know, when counterparties go through discovery and the process goes forward, it becomes apparent to some of our counterparties it's time to settle rather than keep going. And that's why it's important to keep the process moving forward quickly.

And as you can see, some of the more significant resolutions, you know, in the last year -- earlier in the year, we settled the JPM derivatives case and the collateral case, which had been before Judge Sullivan that enabled us to bring in a 1,496,000,000 into the estate. And that, as I had mentioned, we got a little hung up with appeals, but we

got that done when the Second Circuit dismissed the pro se's appeal.

In the Citi litigation, which is a matter that seems to be very stuck in the mud in terms of any potential settlement, we were able to resolve the dispute as it related to a third party claimant in that, which was Brice Bridge (ph). And we were able to work that out. But as a general matter, the Citi litigation moves forward.

Previous litigation that --

THE COURT: Citi litigation is --

MR. CANTOR: Citi's derivatives claim.

THE COURT: We're currently -- we have that scheduled to commence on April 10th, 2017. And we have set aside, at the parties' request, 40 days --

MR. CANTOR: Forty-five --

THE COURT: Forty to forty-five days of trial.

MR. CANTOR: Forty? It's not 45? Yeah.

Well, as you know, those derivatives cases are highly complex involving thousands and thousands of trades. You know, and I would say we were able to settle with JPM and virtually every other big bank, other than C.S. and Citi. The range of those settlements were fairly narrow among all those big banks on those highly complex derivatives matters. In the ordinary push, you would think we would be able to get that Citi case settled there also.

But we have been unable to do that.

So as a stance, we're moving forward. We're in the middle of expert -- you know, expert reports, preparation. And then we'll get into expert depositions. And then we'll head towards dispositive motions.

On the L. Corp. (ph) matter, which was a smaller matter, we were able to get that resolved.

THE COURT: Yes.

MR. CANTOR: That was a good example of one of those cases that was just -- that should have been resolved earlier, but without, you know, the Court's assistance and everybody laying out their positions publicly, we were able to get that matter resolved. Your Honor, similar with the (indiscernible) matter we just had, sometimes it just takes people to go to court and the outcome becomes apparent.

Mizuho -- we had another very complex matters that we needed to resolve with them. And we were able to get that done through business B&B discussions. And we saved a tremendous amount of our time and the Court's time with that. We --

THE COURT: Moore Macro also settled as --

MR. CANTOR: Moore Macro settled.

THE COURT: -- as it approached the trial date, which was to have been last June.

MR. CANTOR: Right. So again, the theme

continues. You know, and the courthouse steps sometimes is the best place to make these things go away.

And the Stonehill matters -- we have 40 claims with Stonehill for $3.3 billion from 2 different Stonehill funds. And we were able to get those resolved before needing the Court's time and trial on that.

And as I had mentioned, we were able to settle the Syncora matter. And that was -- as you know, that was a very complicated matter requiring litigation, this Court and New York State Supreme. And in that case, (indiscernible) U.S. Bank as the RMBS trustee for that particular trust.

THE COURT: Yes.

MR. CANTOR: So we've signed up with Syncora, the trustee for the RMBS Trust is -- there are a couple more groups that jumped through before we can get that done with them. And hopefully, that will be resolved. But it's good to get that one off the books.

And then we resolved eight additional litigations relating to our derivatives book. And --

THE COURT: We still have it on the books, so to speak, Mr. Cantor, for October 18th. So --

MR. CANTOR: Syncora?

THE COURT: Yes. We --

MR. CANTOR: Well, you can cross that off.

THE COURT: I can?

MR. CANTOR: Okay. Yes.

THE COURT: We can cross that off.

MR. CANTOR: You just -- but I'm sure Ms. Marcus and Mr. Fail will give me something else to fill right in there.

THE COURT: It's okay.

MR. CANTOR: Don't plan anything.

Yes, we resolved that.

You know, there was a tremendous amount of success during this case with ADR processes. And we continued to use that after emergence from bankruptcy. We've laid out some data here, right?

So since the inception of the Court-ordered ADR process relating to derivatives-type matters, there were 564 settlements achieved, resulting in $3.1 billion of recoveries. And that's since the inception of that protocol.

Since our last update through the ADR process, we were able to achieve 37 settlements, which resulted in recoveries of about $200 million. You know, as of -- you know, just as a measure, as of this July, 98 percent of the Tier 1 ADRs -- and Tier 1 are with a million dollars or more, which is basically really -- was it 1 million or 5 million?

UNIDENTIFIED SPEAKER: Five million.

MR. CANTOR: Five million. Right here (indiscernible).

There $5 million more of the Tier 1s. We were able to achieve 98 percent of the settlements of the matters that went to the ADR process. We established two new ADR protocols, one with the private label trustees, which is not all that successful yet. But we're, you know, continuing to run that through the protocol.

And then we also had an ADR process relating to the downstream mortgage claims that came out of our liabilities to Fannie Mae and Freddie Mac.

THE COURT: Fannie Mae and Freddie Mac, right.

MR. CANTOR: And we've had some success. There's been a fair bit of resistance from the mortgage originators to resolving things through the ADR process without some further judicial determinations from this Court. And I -- or it may be from the District Court on some of the preliminary matters regarding statue of limitations and the validity of the assignments.

There are a fair number of counterparties who have not been willing to participate in the Court-ordered ADR process. And I anticipate we will be asking the Court for some relief to help enforce the order to at least encourage folks to come to New York, participate in at least one ADR so we can see if we can find some common ground to move this

forward. But there definitely is some reluctance to settle in the -- in that ADR process.

So with the remaining matters and the claims that we have, like I said, there's this 850 -- I think there were exactly 157 claims seeking $54 billion. This is very consistent with the last update that we made, which was these are very fact-intensive disputes involving billions of dollars. That usually can support some legal costs. So the nuisance value becomes less relevant with matters of this size.

And most of these disputes have already been through an ADR. And so, we're going to probably need to keep watching forward towards a trial before something's going to get done. Again, it's going to require a significant amount of Court time and resources, because all these disputes are very fact-intensive.

THE COURT: You know, I just will ask you to pause before we get to your slide on page 9, which is of particular interest to me. You keep mentioning Court resources. I think it's worth my noting that that -- some might think what's the big deal. That's my job. And it absolutely is.

The way that allocation of resources within the judiciary functions, though, is not an exact science. And it's not exactly fitted to appreciate, in the sense of

understand, what a case like this continues to entail. So the most common reaction at the mention of Lehman Brothers is oh, that case was over a long time ago, wasn't it?

And I say no, the plan was confirmed several years ago, but there remains X billion dollars of litigation remaining, hundreds of claims, et cetera. And then I talk about the trial calendar that I'm facing, which you're about to tell me about. And it's significant to the Court here, because it enables us to get resources that we need. And it also informs the government's understanding of complex cases.

They aren't done after five years. We're not making it up. Judge Bernstein still has almost 1,000 matters pending in Madoff cases. The General Motors case is still very active in this building. The Lyondell cases are very active. So what I tell people is if I did nothing else but Lehman, that, in and of itself, would be a full-time job.

So for those who may not appreciate the significance of your comment on resources, I just wanted to add that and to thank you for putting this in a format that helps me have folks be able to understand what it is that we're looking at, despite the fact that, as I tell people from time to time, I'm actually not a slacker.

(Laughter)

MR. CANTOR: Yes, --

THE COURT: Nor was Judge Peck before me.

MR. CANTOR: So -- and, yeah, the chart on page 9 -- if we could flip to that now --

THE COURT: Sure.

MR. CANTOR: -- makes it clear. Mind you, this doesn't even do justice to what you just described, because these are only the matters that we have formal orders --

THE COURT: That's right.

MR. CANTOR: -- and to schedule these things.

THE COURT: Right.

MR. CANTOR: And I think the number was -- there's about eight other or so major litigations beyond this that we haven't scheduled that would probably have schedules that look somewhat like this. So this is really just the -- what we have currently calendared. I'd note that on that JPM deficiency case, there's a -- we're going to be having a new scheduling order that's going to be changing that somewhat. But it's for the purposes of what we're trying to express here, there's --

THE COURT: Right.

MR. CANTOR: -- there's an awful lot that needs to get done.

THE COURT: Well, if you were to amend this to reflect how I keep track of things, we are now into Q2 of

2018. Trials are booked into Q2 of 2018.

MR. CANTOR: Yes, and again, most of these things are things that have resisted settlement through negotiations, --

THE COURT: Right.

MR. CANTOR: -- business-to-business, and the formal ADR process. And either it'll get --

THE COURT: We'll remain optimistic.

MR. CANTOR: -- done after dispositive motions. But we remain optimistic. And as you know, we do our best to settle whatever we can.

THE COURT: Yes.

MR. CANTOR: So flipping to page 10, you know, the big bank litigation or any big bank -- these are -- and again, as it relates to C.S. and Citi, those are derivatives matters. And again, there were, you know, 11 of the 13 big banks have all -- and that includes J.K. (ph) -- have all settled. Because, you know, there's sort of a reasonable place to get those things done. Citi and C.S. haven't gotten there yet. So that's going to head towards trial.

But as I mentioned before, we were able to resolve the JPM derivatives case. And that also included the resolution of the collateral case, which Judge Sullivan had already really ruled on.

One of the significant matters is the JPM

deficiency case. You know, that was the -- that's the case where JPM was alleging tens of -- the tens of billions of dollars that the LBI Trustee -- that LBI held its collateral was insufficient to satisfy the JPM's extension of credit for preclearing. And they required the provisional application of about $6 billion of LBHI cash.

We're challenging the adequacy of the credit given to LBI by JPM for approximately 4,000 securities that JPM held as collateral. There's a massive, massive discovery record underway in which I know you're familiar with, because we have conferences with you virtually monthly. Because the estate is in a little bit of a wild hunt because we're left with trying to figure out where -- the estate was given credit for 4,000 closeouts. And we're really trying to figure out exactly what the estate should have gotten credit for. And we're being, you know, put through the paces to rebuild all these values in an effort to figure out what the right credit was.

So -- and that, as we've seen in many, many, many, many of these kind of suits. And I would tell you beyond the people that came down here today to sort of listen to the hea4ring and pay credit to this being the hundredth omnibus objection is an awful lot of really talented people still at Lehman spend their days doing forensics on trying to figure out what the credit we should have got for this

massive (indiscernible). So --

THE COURT: Well, you know it's significant when folks come in for a discovery dispute and the courtroom is almost as full as it is right now.

MR. CANTOR: Yes.

THE COURT: It's highly unusual.

MR. CANTOR: Well, personally when I was in this -- I was, you know, in the asking (ph) business for a little while. And I was going to practice law for a long time. I've never really ever seen anything this massive. It's, you know, going through trying to recreate the closeout of one of the -- you know, the biggest collateral packages ever years afterwards and having to, you know, use the court process to get that information and being -- it's very adversarial, because there's a lot of money at stake. But we're going to get there.

And if we can't resolve that, that will be, if it needs to be, tried and an extremely time-consuming, fact-intensive case. And that's -- you know, that's currently, we're thinking first quarter 2018.

Again, I mentioned the Citi and the C.S. derivatives matters still remain unresolved. Again, we hope we can get them resolved, but it doesn't appear that way now. Citi, as we mentioned, is scheduled for April 2017.

THE COURT: Right.

MR. CANTOR: And, you know, will get many, many, many trial dates. C.S. is behind Citi in terms of time. And that's moving forward, though.

THE COURT: Right.

MR. CANTOR: Also with the typical arm wrestling over discovery and sharing documents and trying to make it a little more difficult for us to right-size that claim. That's a trial, as you've mentioned, is something that won't happen before the end of the first quarter of 2018.

THE COURT: Right.

MR. CANTOR: So second quarter is probably not (indiscernible). And again, highly complex matters involving, you know, very fact-intensive disputes and relating to the very complicated relationships between Lehman and its -- and its -- and its bank counterparties. And as you know, we have a post-petition issue with Citi.

THE COURT: Yes.

MR. CANTOR: And issues (indiscernible). Again, likely to take an awful lot of time and Court resources.

In page 11, we've laid out the details. You know, in this Citi case, Citi received about $2 billion from Lehman prior to the bankruptcy case. And they filed claims against the estate related to the closeout of derivatives trades exceeding over $2.2 billion.

And they seek to impose -- to apply a set-off

against those claims and retain that cash. And we're obviously looking to get the cash back. As I mentioned, we're in the expert stage of the Citi case now. And based upon the scheduling order, the trial's set for April 2017.

In the C.S. case, C.S. filed claims of about 1,200,000,000 relating to nearly 30,000 derivatives trades. And they also filed guarantee claims. That's up against LBHI. The derivative claims against LBSF.

We dispute the way they calculate their closeout amounts. As of the early termination date, we think they filed and pled (ph) claims. We are looking to significantly reduce their claim. We actually think -- you know, we're seeking to recover about 150 million from C.S. as a receivable to the estate in connection with that case. And again, that's in the early stages of discovery.

The next massive matter are private label trustees. So the protocol has proceeded as planned, and the trustees were able to go through the requisite loan (ph) files. And they presented to us 94,080 (indiscernible) since the last update.

So step one of the protocol is complete, and that was the trustee loan review process and the claim submission. So they reviewed -- the trustees reviewed it and (indiscernible) 210,928 files. And they submitted from that 94,080, which they --

THE COURT: So the universe of files was dramatically shrunk --

MR. CANTOR: Correct.

THE COURT: -- by the protocol?

MR. CANTOR: From this -- from the -- from the total universe of files possible.

THE COURT: Right.

MR. CANTOR: They identified files that they claim supported a breach and their recovery that they're entitled to, 94,000 files they presented to us. So in step two of the protocol, which is our review, the plan administrator's review, and our acceptance and rebuttal -- it's currently ongoing. We're on schedule. That was the schedule required of the protocol.

We've reviewed 63,004 of the loan files. We've begun step three of the protocol process, which is a business-to-business level negotiation between -- you might have met Mr. Trump and his team, our business folks on the mortgage team. And they have been meeting with the folks from Duff & Phelps who are the trustee's expert in connection with the protocol. And that's ongoing.

Now, we put aside about 30,000 of the loans. So that's -- so do you see the delta between 63 and 90? And those are files that we identified were deficient in terms of the protocol had a list of documents that needed to be

attached to that.

THE COURT: Yes.

MR. CANTOR: About 30,000 of those files we were unable to complete our review, because it didn't comply with the protocol order. Because we think -- you know, things like in every loan file when there's a breach and a default, there's a corporate expense report that actually lays out and keeps track of what expenses were incurred. Because that -- if there were a legitimate breach, at least we can sort of figure out how much we owe them.

THE COURT: Track it back, right.

MR. CANTOR: So that was one type of file that was missing, another piece of information was missing from the files. Another piece of information was payment history. Some portion of those 30 files were submitted, and the trustees did not include a payment history. So we were unable to determine whether or not the file defaulted quickly after it was written or five years after it was written. And that was one of the things, if you remember, was fairly heavily negotiated and argued over. And that was all before the protocol.

Some of the files didn't contain loss certificates. Meaning a certificate that laid out exactly how much was owed. So we put that aside so that -- that's 30,000 of those files. But as for the files that we did

review, so we've accrued -- meaning we have agreed with the trustees that there was a breach that we could -- we think would be provable that's supported the loss.

About 1,053 that we agree with supporting a claim of $217 million. We rejected 61,951. And those support a claim of about $12.4 billion that we rejected. And you will see in step three of the protocol there's a dispute over those.

You know, we had a -- we recently had a motion and order entered by the Court disallowing claims relating to --

THE COURT: Transfer or trusts.

MR. CANTOR: -- trusts. Disallowing claims that related to no files, where the trustees did not present a file.

THE COURT: Yes.

MR. CANTOR: We're looking at other strategies, which we anticipate moving forward very shortly, to continue to begin, you know, winnowing down the quantum of the claims, to the extent possible, to keep trying to narrow this down. And, you know, we -- I talked about 30,000 files we were unable to even quantify the claim of.

THE COURT: Well, I'll look forward to lending any assistance I can in helping to continue to move that forward.

MR. CANTOR: Thank you. I appreciate it.

THE COURT: Because the numbers in that one in particular are quite daunting.

MR. CANTOR: Yeah, again, 54 billion remaining, 37 is this matter (ph).

THE COURT: Yes.

MR. CANTOR: Now, look. At the end of the day, even with whatever work we can do to winnow down the universe of claims, there are going to be disputes over loan files. And the nature of these types of claims, as you saw from the downstream process, are loan-by-loan.

You know, whatever the laws are that relate to breaches or the relationship between the breaches, the losses are necessarily tied to the facts. So it's a knotty (ph) one, but I think we have a couple of strategies. We'll be able to winnow this down.

THE COURT: Okay.

MR. CANTOR: One the downstream, which is the second part of the mortgage related -- and I -- you can sort of see as we talk about the downstreams from the Fannie Mae and Freddie plans --

THE COURT: Right.

MR. CANTOR: -- where the rock was rolling on the downstreams that come through the private labels. But we're not going to think about that yet.

So again, with Your Honor's assistance, we have an

ADR process we put in place. The ADR process has not been as successful as we might have liked, but we keep working hard at it. So I anticipate there's going to be some court time that's going to be required to keep those moving forward.

We filed an omnibus complaint relating to 140 among settlers.

THE COURT: Yes.

MR. CANTOR: And if you remember, that was a function of counterparties looking to other Courts.

THE COURT: Yes.

MR. CANTOR: Just as a matter of update -- and I don't know whether you had been updated. Remember there was one counterparty who had sought relief in the State Court of Delaware.

THE COURT: Yes.

MR. CANTOR: That counterparty has asked to adjourn the hearing in Delaware. And the next step was to go to Delaware and see whether or not that judge wanted to hear the case.

THE COURT: Okay.

MR. CANTOR: The counterparty has asked to move that hearing that we were supposed to have over the summer and something came up. And he wanted to move it out, I think, some time in the fall now we'll get it done. I don't

even know whether they're going to want to go forward in Delaware. But just as a matter --

THE COURT: Okay.

MR. CANTOR: Nothing's happened.

THE COURT: All right. My understanding is that a judge in Milwaukee sent one back.

MR. CANTOR: Yes, there was one judge in Milwaukee who was asked by a guarantee bank. There was a local bank out there that asked that judge to hear the case. And that judge -- you might have read the decision -- was of the view that this Court was probably the best Court to resolve the matter, given the Court's experience with these types of things and its relationship to the broader case. So that's the mortgage stuff.

And on page 14, again, we have the derivative disputes. And we've laid them out on the next page. The number is getting small, and we're working them down. But again, we are dealing with counterparties who have come up with a variety of method to, at least in our opinion, inflate their claims and profit from the Lehman bankruptcy.

THE COURT: And speaking for them, they would wholeheartedly disagree with your characterization.

MR. CANTOR: Yes, absolutely. And the way that we've seen this is counterparties have submitted loss calculations that generate claims in excess of their actual

loss, which we think is the most appropriate way to determine what the recovery should be. They calculate that closeout supplying dates and times to maximize their loss, regardless of the actual date they chose to terminate these things or haven't actually managed their portfolios. And again, highly fact-intensive, only through, you know, hand-to-hand combat in discovery are we able to collect the information and the emails and the communications that have occurred beforehand so we can get a sense of --

THE COURT: Well, and in some instances, --

MR. CANTOR: -- what the strategy was.

THE COURT: In some instances, not only have we gone up to the trial date, in some instances, at least one I can think of, we've actually conducted the entire trial and then a settlement was achieved, only after that entire exercise took place.

MR. CANTOR: Yes, and then again, we're down to the highest hanging fruit. We have counterparties making hypothetical loss calculations and submitting those to support their claims, even though the trades were replaced. And we've seen them try to --

THE COURT: Which again, they would argue was entirely acceptable.

MR. CANTOR: We've seen counterparties trying to pull proceeds -- entirely acceptable.

THE COURT: Just to be fair, since nobody's specifically here today for the purpose of answering any of your substantive arguments.

MR. CANTOR: Correct. And then the other area of major -- area of dispute where counterparties would disagree is in situations where, you know, in the ordinary course of business, you know, there's offsetting or netting in derivatives books.

THE COURT: Yes.

MR. CANTOR: And yet, in the context of submitting a claim, that suddenly becomes meaningless.

So we have 18 remaining adversary proceedings involving derivatives counterparties, and there will be 5 more that we anticipate if we can't get it settled. And we haven't been able to settle it yet, so it will bring that to 23. Again, very large dollar amounts at stake, generally supporting a fair bit of legal spend, which would result in this Court's needing to spend time and resources helping us adjudicate these things.

THE COURT: I don't keep track, but my guess is that there are probably at least -- I'm going to guess completely wrong -- there are at least a dozen appeals pending. Probably folks in the room know. I can name almost a dozen right off the top of my head. But we can't lose sight of the fact that a number of orders are up on

appeal. So based on what happens either at the district court or at the circuit, we could be seeing some things come back here obviously; I hope that's not the case, but it is what it is, it is what it will be.

MR. CANTOR: And then another area of the litigation you have is this DSPV matters, which Your Honor is familiar with from our hearings more recently. Many of those matters still remain subject to an ADR process.

Just as a matter of update, we had resolved with a hundred of 200 of the defendants in this SPV protocol. Again, as you know, highly complex, some novel law, and something we continue to work on.

So on page 15 we laid out again just sort of a list of the derivative disputes with the adversary number and what stage the litigation is in. And just for the purposes of the record, where we see things in discovery, as you know, a tremendous amount of time is spent down here with you managing discovery disputes, which we all try to avoid, but we appreciate the amount of time that you and your chambers have spent and have been so responsive to our needs to move those cases forward.

THE COURT: We have -- just looking at my running scorecard, we have FHLB Cincinnati coming in for trial, a week trial beginning on November 30th; QVT is slotted in for two weeks of trial at the end of January, 2017; we have a

date set aside for Winchester Medical Center, February 1st, 2017. Right before the commencement of the Citibank trial, we have FHLB New York --

MR. CANTOR: New York.

THE COURT: -- set for a day, and we also have DILA set for a week's trial in October, which would be particularly -- which will be particularly interesting since my understanding is that it will be partially in Japanese, which I have done before. I've actually conducted a three-week trial with interpreters in Japanese.

MR. CANTOR: Okay.

THE COURT: In addition, we're in Olympic season, so it's an additional degree of difficulty.

MR. CANTOR: Yes. So there's a lot coming and we will do our best to resolve those matters. I wouldn't be surprised if a couple of those you mentioned ultimately don't happen, but until it's done --

THE COURT: If they do happen, we'll be ready.

MR. CANTOR: Thank you, Your Honor.

So if you remember, we had the LBIE guaranty issue, which had been since the last plan update that we were able to make that progress. If you remember in July of 2000 -- of last year, we asked the Court to estimate at zero LBHI's guaranty claims to the primary obligations of LBIE, Lehman Brothers International Europe. The basis of the

motion is that the LBIE case was going to make distributions be more than enough to satisfy LBHI's guaranties.

On the heels of that motion and some of the early motion practice before hearing that matter, a number of creditors agreed to release LBHI's guaranty claims. We were able to disallow over 900 claims and with claim reserves of $3 billion, which resulted in a release of over $200 million of cash from the estate to creditors, which I thought was really a great outcome for that type of matter. That was one of those really large, complicated ones that was going to slow us down if we couldn't get some relief.

There was a smaller group of creditors who generally agreed with our position, but were unwilling to agree to the disallowance of their claims until we -- until LBIE distributed at least an additional 15 percent on their claims. So those matters are sort of put to the side and hopefully once that LBIE case goes a little further we'll make those go away. But as usually there are always -- there were a few creditors that were unwilling to do anything.

These are creditors whose claims had been set in the LBIE case either by agreement with the LBIE receiver or by court order, but who nevertheless think they're entitled to a larger claim against this estate on account of the guaranty of that underlying claim. And you've seen some

motion practice already and the way things are going I anticipate we would at least have to head towards some sort of trial date with those folks. Luckily, it was a very small number of creditors compared to the hundreds that we had.

You know, we spent an awful lot of time and resources at the estate, you know, with the largest creditor and most of those foreign receiverships. And a tremendous amount of time and effort is spent not only monitoring those cases, but working with those foreign receivers and other creditors in those cases to help those cases resolve as quickly as possible, enable cash to flow out of those foreign receiverships back to LBHI, so we can get out to our creditors.

The Australian receivership case, disputes we had with that receiver were particularly knotty to get resolved, but we were able to resolve all our issues with the Australian receiver since the last update. It enabled the flow of hundreds of millions of dollars on distributions to local and foreign creditors for those Australian entities, and it avoided an awful lot of litigation which was going to be coming down in Australia and potentially some tension over jurisdiction. But those foreign matters are going to take an awful lot of time, less of this Court's time.

So in conclusion, we've made significant progress

in asset recoveries and claim resolution, and we've made substantial distributions to date and we continue to work hard to make more distributions.

The remaining portfolio of disputed claims is for the most part held by our most contentious creditor constituency and some of the discussions are constant. As you know, we're constantly trying to resolve things and I'm always available to be here to help get things resolved. These are --

THE COURT: Well, it's a point that you are here very frequently, as are numerous members of the team, who reflect a real desire to move things along and also reflect an extraordinary level of knowledge about the nitty-gritty details, which is often I think one of the most important pieces in the puzzle of being able to move something along. So I appreciate their work. I do appreciate your presence, because it puts a face on Lehman and I do think that, at least based on what happens sometimes after matters are heard, it does seem to make a difference.

I will also say that often when I raise the possibility of settlement or mediation parties will ask, I think seriously, if Judge Peck is available to mediate, I think they seriously ask if Judge Peck is available to mediate matters. Judge Peck is apparently evidencing a willingness to do that, but I think that that probably would

not be proper.

(Laughter)

MR. CANTOR: You know, and with -- just to digress for a minute -- and again, we like to stay very focused on what's ahead and it's been -- our approach to resolving this has been very low key, but I would say --

THE COURT: I don't think low key would be the word that I would pick, but --

MR. CANTOR: -- low key in terms of -- low key in terms of I would say the people remaining at the estate. And it always amazes me the quality of the work being done, the intensity that the team brings to the work. I've never been around a group like this in 30 years of practice, after a case is done getting claims resolved and assets sold. The level of talent and commitment is extraordinary at this estate.

So the next we -- again, we're maintaining a robust and experienced litigation platform and we're prepared to strike the necessary balance considering the value of fair compromise, the cost of litigation, the benefit received by the estate's creditors from timely resolution, and the goal of ensuring that all creditors are treated fairly. And I stopped and read that bullet carefully, because we spent a lot of time thinking about what our mission is and how we want to describe it, and we

used great care drafting it that way because those are the things we are focused on in trying to resolve the case.

And again we anticipate a fair amount of the Court's time and resources are going to be required to fully and finally resolve this massive estate, and we appreciate all the time and efforts you will give.

THE COURT: Mr. Cantor, thank you very much.

MR. CANTOR: Sure.

MR. FAIL: Your Honor, Garrett --

THE COURT: Yes, Mr. Fail.

MR. FAIL: -- Garrett Fail, Weil Gotshal, for the debtors. I just wanted to follow onto your comments, Mr. Cantor's and Judge Peck's about all the work that's done behind the scenes by introducing some of the folks behind the bar that are behind the scenes, including one of the board members of LBHI, David Pauker, who's here. Chris O'Meara, the --

THE COURT: Hello, Mr. Pauker. How are you?

MR. PAUKER: Fine. Thank you, Your Honor.

MR. FAIL: Chris O'Meara, the CEO, and members of LBHI's legal and derivatives team --

THE COURT: Hello, Mr. O'Meara.

MR. FAIL: -- Tom Hommel, Larry Brandman, and Shefali Raina, who are here in the front row today.

THE COURT: Yeah, they're frequent flyers here.

(Laughter)

MR. FAIL: Thank you, Your Honor.

THE COURT: Thank you, Mr. Fail.

Good morning.

MR. KOBAK: Good morning, Your Honor. It brings back a lot of memories to see Judge Peck in the courtroom today and I'd like to say --

THE COURT: Good ones, I hope -- well, good in some sense.

MR. KOBAK: No, very good, Your Honor. I remember many times he would ask me at the end of a hearing to report on where we stood on many of the issues that the trustee is going to describe today. His questions usually ended with the word "when," which I studiously tried to avoid at the time, but today, finally, we know the answer to most of those questions.

THE COURT: Well, before you get started and not to steal your thunder -- and Judge Peck can speak to this I think probably more forcefully or at least as forcefully as anybody in the room -- I think that when the case was filed, certainly I remember what it felt like and how nobody knew what was going to happen. And it certainly was not within anybody's contemplation that here today you would be standing here and telling me about the level of recovery to

unsecured creditors, which to put a fine point on it means that all of the customer claims have been paid in full. And I think Judge Peck can probably reflect on this as well that that was certainly not the way everybody thought it was going to turn out back in September of 2008 when this case commenced.

So that in and of itself is an extraordinary thing and I look forward to your describing where you've been and where you're going, because you are getting very close to the finish line, as far as I can tell -- not that it's a race between the two estates.

MR. KOBAK: Yes, Your Honor. I'd just like to say, as Ms. Marcus said, we think too that the insolvency statutes really prove that they work in our case, the SIPA statute rather than Chapter 11, and I think from the point of view of our term -- of our team, we think the quality and dedication of the judges, both you and Judge Peck and generally the judges in this district, is a tremendous asset in these cases. And Judge Peck referred to all the work and research and putting the binders together, but all that work goes to good use, it reaches good results, it's very satisfying for the lawyers involved and it's very important for the public.

THE COURT: It's also -- just to again -- and I will let you speak, but oftentimes there are reports in the

press, the legal press and the general press, about the level of fees, and I think it bears emphasis that this is an incredibly labor-intensive process and it is not relevant or probative of anything to talk about an amount of fees that have been incurred or expended without comparing it to the results that have been achieved. So to the extent that we want to remark that there have been a large number of fees, amount of fees, which there have, there's a reason for it and frankly it's reflected in the results that have been achieved, which are a heavy lift in many, many instances. So I wanted to make that point as well, which I think I probably made at the last state-of-the-estate presentation as well.

MR. KOBAK: Yes. Thank you, Your Honor.

Your Honor, I actually don't propose to speak today. When the case began, the trustee asked to address the Court and the trustee would like to do so again today. I think Mr. Caputo will also have some remarks --

THE COURT: Okay.

MR. KOBAK: -- from the point of view of SIPC. And to the extent Your Honor has any questions, Mr. Kiplok, Ms. Cragg (ph), Mr. Margolin, Mr. Smith, who's in the back of the courtroom, and myself will try to answer. Thank you.

THE COURT: Again, all frequent flyers and --

MR. KOBAK: Thank you.

THE COURT: -- always good to see.

Good morning.

MR. GIDDENS: Good morning, Your Honor. Thank you for providing this opportunity for me to update the Court on the state of the Lehman Brothers Inc. nearly eight years after the liquidation proceeding began under the Securities Investor Protection Act.

As trustee, it's very satisfying for me to report that we continue to move towards substantial completion. In the dark days of Lehman's failure as the largest bankruptcy in history threatened global markets and economic stability, very few observers thought we would be able to accomplish the recoveries and distributions we have in fact accomplished in this proceeding.

Customer claims have been fully satisfied, with most customer claims fulfilled within weeks of the liquidations between in 2008. Secured creditors, priority creditors and administrative creditors have also received 100-percent distributions.

General creditors recently received their fourth distribution, bringing the cumulative payout on allowed unsecured general creditor claims to 38 percent, far exceeding initial expectations.

We are now focused on working hard to resolve outstanding issues where I can seek the Court's approval for a final distribution that will complete the full wind-down of the estate and end the liquidation proceeding.

On distributions, before going into unresolved issues, I'd like to provide a brief recap. The LBI liquidation presented a case of unprecedented magnitude and complexity. Certain asserted customer claims, including the LBIE claim and the LBHI claim were by themselves larger than any previous SIPA proceedings in history.

In total, Lehman's broker/dealer customers and creditors have now received $115 billion in distributions. This represents the single largest distribution across worldwide Lehman insolvency proceedings. Importantly, more than 110,000 retail customers received 100 percent of their property within days of the bankruptcy due to the unique account transfer process permitted under SIPA. Following those customer account transfers, over 14,000 customer claims with an asserted value of approximately 50 billion were resolved.

The swift return of customer property was critically important to the restoration of stability to trading platforms in the midst of very real fears or potential for global financial collapse. The return of customer property could not have happened without the SIPA

account transfer provisions and the ability of the transfers to be backstopped by the SIPC funds. It took thousands of professionals working hand-in-hand with regulators to accomplish this extraordinary task, and it took nearly two years to completely reconcile the transferred accounts.

For example, there might have been one hedge fund account which had more than a million transactions even though it was treated as one account.

In addition, the liquidation required the wind-down of thousands of open transactions with virtually every financial and governmental entity throughout the world, and a determination of claims based on highly sophisticated and complex financial transactions.

Given these complexities back in 2008, the prevailing expectation was that the general unsecured creditors would not receive very much, if anything. Despite these concerns, the estate has distributed over 8.8 billion to general unsecured creditors. These distributions were made possible by the settlement of LBHI's and LBIE's customer claims, which Judge Peck referred to, and I quote, as "one of the most complex matters to ever be resolved in history, at least in a commercial sense."

These settlements served as the key that opened the door for distributions to general creditors. I also would like to note that additional distributions to general

creditors remain possible and most likely.

I am pleased to report that approximately 140,000 claims were asserted at the beginning of the liquidation, those have now been reduced to 430 which are unresolved. All of those remaining claims are now before a court for resolution or are pending settlement.

The Barclays transaction: it's very important for me to acknowledge that conditions that existed that limited the full realization of assets that were previously available for LBI customers and creditors. These are assets which were on the LBI balance sheet at the time of the liquidation.

Over the course of this liquidation, we have pursued every reasonable legal avenue to recover assets that we believed belonged to the estate. However, unsecured losses resulted from (indiscernible) specific to the historic failure of the Lehman enterprise and the Barclays acquisition of some, but not all of the LBI business and select customer accounts.

The amount and sources of these losses are detailed in the preliminary realization report, which takes the corrected balance sheet and indicates what we have recovered of those assets. That report was filed with the Court on February 23, 2015.

The Barclays transaction did provide a number of

benefits, including enabling a significant portion of LBI customers to transition to a new, solvent broker/dealer. The transaction also provided for continued employment of several thousand former Lehman personnel. However, the emergency transaction with Barclays negotiated in the days and hours before the liquidation was also the largest cause of losses. Specifically, Barclays acquired over, under our estimate, 11 billion in assets from LBI, plus LBI's former employees, intellectual property, high-worth customer accounts, and an entry into the U.S. market in exchange for approximately 2.4 billion of payments to third parties to settle LBI obligations. This resulted in a multi-billion-dollar loss to LBI.

Disputes arose between the office of the trustee and Barclays over whether Barclays had purchased certain assets and assumed certain obligations and over accessed the necessary information. As a result we engaged in over six years of litigation. The litigation was resolved through a settlement last year. The assets paid to Barclays significantly diminished amounts available for LBI's unsecured general creditors.

Outstanding issues and next steps: Today we are at a stage where the LBI liquidation has entered a phase of substantial completion, but it's important to note that the proceeding still remains a mega-case and significant work

remains before the liquidation proceeding can come to an end. While the administration of the general estate is almost complete, there are still over 400 general creditor claims awaiting a final resolution, including ten objections before the Bankruptcy Court, 35 claims awaiting the outcome of appeals before the District Court, and 384 claims awaiting the outcome of appeals before the Second Circuit.

The claims pending before this Court primarily relate to transfers through the Automated Customer Account Transfer Service or ACATS, as well as one-off claims relating to failed foreign exchange transactions and employee bonuses.

All of the claims on appeal to the District Court are asserted by the equity award and RSU claimants. The claims pending on appeal in the Second Circuit include all of the Executive and Select Employee Deferred Compensation plan or ESEDC claims, as well as three Barclays bonus claims.

I am the appellee in all of these appellate proceedings. The closure of the estate is dependent on the final resolution of these appeals by the relevant appellate courts and we are hopeful that the claims appeals will be resolved swiftly and efficiently.

We continue to have over $839 million in asset to administer. The assets are subject to reserves pending the

outcomes of the matters I've noted. In addition, remaining sales of residual assets which are pending before the Court include the sale of LBI's claims against various bankruptcy estates and other future payment streams will need to be completed to allow the closure of the estate.

Once the remaining claims are finally resolved and the asset sale is completed, we'll commence the final steps to close the estate. At that time we'll seek the Court's approval for the preservation of the required data and abandonment of unnecessary systems and information for a final distribution to creditors. We are committed, as is the LBHI and estate, to the prompt closure of the estate, and dependent on the issues I've mentioned, we hope to make additional distributions as promptly as possible.

As this overview has demonstrated, at a fundamental level the current liquidation regime was successful. In our investigation report and throughout the proceeding we have promoted specific reform proposals and identified additional areas where reform would be appropriate. In addition, in 2012 I was appointed to a task force that recommended recommendations for modernizing SIPA and I incorporated various learnings from the LBI liquidation in my contributions to that task force.

We continue to update regulators in the United States, the United Kingdom and elsewhere on a regular basis

on these issues, as well as more generally on the lessons learned from Lehman and possible areas for reform. We regularly provide updates and recommendation to congressional committees, legislators and other interested parties on similar topics.

I urge regulators, policymakers and others to bear in mind the lessons we've learned from the Lehman bankruptcy in considering the future reform of our financial system. One of the most important lessons of this administration in connection with the LBHI bankruptcy proceeding is that the bankruptcy process and the SIPA regime has been tried and tested and shown not only to work, but to work well.

In conclusion, I would like to thank SIPC, including Ken Caputo, who will address the Court this morning, the SEC, the CFTC, FINRA, and other regulators who played an active role in the LBI administration and provided substantial support and guidance.

The progress we've seen would not have been possible without the oversight of this Court, including Judge Peck, who is here today, and of course Your Honor.

Our goal is to close the estate as soon as possible. We recognize that court calendars do not always move at a party's desired pace and in light of the claims on pending appeals that timeline for closure may be optimistic. However, our goal is that a final distribution be made and

the estate be closed by the end of 2017. We look forward to continuing to work with the Court as we resolve outstanding issues and pursue the closure of the estate.

Thank you, Your Honor.

THE COURT: Thank you very much.

Good morning.

MR. CAPUTO: Good morning, Your Honor, Kenneth Caputo on behalf of the Securities Investor Protection Corporation.

As you've just heard, the SIPA liquidation proceeding of Lehman Brothers Inc. has progressed quite well. From the outset, we worked with the trustee to effect the largest bulk transfer proceedings in the history of SIPA. To the many varied and unique challenges faced by the estate throughout the proceeding, we've worked closely not just with the trustee, but with the Securities and Exchange Commission, the Federal Reserve Board, the Federal Reserve Bank of New York, and many others to effect the expeditious return of property to customers and to enhance recoveries for general creditors to the maximum extent possible.

As the slide dec that was submitted touches on, many of the challenges we faced were far from certain and many involved novel questions of law. From matters involving things like TBA contracts, repurchase agreements, and without a doubt the gargantuan inter-company claims that

led to the historical settlements with LBHI and LBIE, and frankly so many others.

We are pleased to report to the Court today that from SIPC's perspective this has been an extremely successful liquidation proceeding and one that serves to highlight the benefits of investor protection afforded under the Securities Investor Protection Act. And as you have heard, the liquidation proceeding is winding down in an orderly fashion.

SIPC's role throughout the proceeding has been to oversee the liquidation, to advise the trustee and counsel on matters affecting the statute, to appear in court as necessary to set forth our position, and to report to and inform various departments and agencies of government about the issues and our progress.

In that regard, one of the unique aspects of a SIPA liquidation proceeding of this size and importance is that it involves interaction with all three branches of the federal government. The judicial branch of course plays the primary role: where the case is commenced, where it proceeds and to whom we report on an ongoing basis.

Throughout the oversight role played by the Securities and Exchange Commission the executive branch is involved. As SIPA mandates, SIPC reports regularly to the Commission, and SIPC's and the trustee's work have been the

subject of examination by the Commission. Further, the Commission sends out a report to the President, who also remains informed as to our work through the appointment process on SIPC's board of directors.

The legislative branch receives not only regular and periodic briefings, both in the Senate through the work of the Senate Committee on Banking, Housing and Urban Affairs, and in the House through the work of the House Financial Services Committee, but also holds periodic hearings where they receive the testimony of individuals like SIPC's CEO, the trustee, and others who are involved in the process.

The SIPC liquidation proceeding has also been the subject of inquiry and attention at numerous other levels of exchange with the government, with the legal profession and with the securities industry around the globe and it remains so to this day.

For example, just a few weeks ago through our work on the Financial and Banking Information Infrastructure Committee, which committee is hosted by Treasury, we met with the Deputy Secretary of the Treasury and with SEC Chair White. Just last month I once again served as an instructor in Toronto's Centers of Securities and Leadership seminar where Lehman and its challenges were center stage.

Mr. Kiplok and I were asked not long ago to

provide a briefing and a report to the Financial Stability Board on issues surrounding hypothecation and repurchase agreements in Lehman. And I also delivered a presentation on Lehman recently to the International Compensation Scheme's section of the IOSCO meetings in London.

Finally, Your Honor, we continue to use the lessons learned from Lehman to inform our work with the FDIC and the SEC as we work collectively to finalize the rule involving the covered broker/dealer provisions under Title 2 of the Dodd-Frank Wall Street Reform and Consumer Protection Act. The proposed rule was published in the Federal Register on March 2nd, 2016, and the common period has now expired. It is expected to be released prior to the year end.

As you know, Your Honor, this has been a case like no other. I'd like to thank the trustee for his exemplary leadership and his terrific counsel for all their hard work, and all the parties that have worked with SIPC to get us this far along.

But I'd also like to thank the Court, including Judge Peck --

THE COURT: Well, you should turn around and address Judge Peck.

MR. CAPUTO: And Your Honor for all of the courtesies extended to SIPC and to me personally on matters

of administration and scheduling and the like as we travel from Washington to be here on a regular basis. It has been a pleasure.

Thank you.

THE COURT: It's been a pleasure for us as well.

Well, you've not surprisingly all taken -- made great emphasis on the work of your teams and folks who don't appear here, but who work very hard behind the scenes. That's true here as well, that's true here as well. There have been a series of law clerks starting with Judge Peck's law clerks, who I would say didn't know what hit them that day, but had a wonderful ride once the case started. I was lucky enough to have one of Judge Peck's clerks, Ms. Lutkis (ph), stay with me to help me with the transition, and she since moved on to other things. She was followed by Mr. O'Neil, who also has moved on to other things, who was then followed by Mr. Beller, who is moving on to other things. Ms. Smith, who's going to stay with me. Ms. Eisen (ph) all of you know, she's been with me forever, and there's actually a secret order entered that she has to stay with me forever. But rest assured that we will effect the transition and we will continue to give you time as and when you need it, which I hope is your experience of interaction with chambers.

It does seem like a lot of work sometimes, it is a

lot of work, but we pride ourselves on making hard decisions, giving you the calendar time that you need, and doing whatever we can to assist.

There's another group of folks that I think it's important to mention and it picks up on something that Mr. Cantor mentioned, that there is no Lehman. It's a line that I say in particular when we're dealing when we're dealing with parties who don't understand everything that is second nature to you folks, in particular individuals. It bears mentioning that there were thousands and thousands of Lehman employees and other regular folks who lost a lot. They don't understand why we could be sitting here today talking about what a great success these cases have been and yet they lost everything.

It's been one of my missions presiding over the cases, as it was for Judge Peck, to explain to each and every person who asks what this is about, what the process entails and why they cannot get a recovery, if in fact that's the case, as it has been for the employees in particular who have retirement accounts that held stock and stock options. We have had folks participate in these proceedings by telephone, I have even received letters from people saying thank you, even though you did not accept my claim, I felt heard and now I understand.

So I think it's very important as the cases

continue to be covered and there continues to be very active dialogue and concern over how to avoid another Lehman that those folks be mentioned and that you all understand that we try very hard to have the process be transparent and understandable to regular people.

Picking up on a few things that the trustee and Mr. Caputo mentioned, I will tell you that Judge Peck travels the world talking about Lehman and is involved in many ongoing efforts in the area of understanding GSIFI, Globally Systemic Important Financial Institutions, and having folks understand what led to Lehman, how to avoid another Lehman, and his work in that regular is invaluable.

Just a few weeks ago I was asked by the chairman of the FDIC, Chairman Gruenberg, to become a member of the Advisory -- Systemic Resolution Advisory Committee of the FDIC, which appointment I of course accepted and I'm very excited to participate in that. That committee is charged, as a lot of you know, with the implementation of Dodd-Frank, and I expect that my particular focus will be on single point of entry and the role that the bankruptcy system has to play. I appear to be the first and only judge to serve on that committee, so excited and a little nervous about that.

And I just also want to say that I think above all the case and the past number of years really speaks to the

fact that the system does work. Our legal system, the rule of law, the concept of due process survives even in times of crisis, and it's a great testament to everyone here and to many, many folks who are not here.

On that note, I would like to give Judge Peck the last word. It's not often that you get to put Judge Peck on the spot, but I relish the opportunity.

(Laughter)

JUDGE PECK: Well, it's --

THE COURT: Thank you for entrusting me with this life's work.

JUDGE PECK: It's in good hands. And this has been a remarkable morning for me. I've been in an unaccustomed position in this courtroom and it's due to Judge Chapman's invitation. I wasn't so sure I was going to make it; I'm really glad that I'm here.

And your reference toward the end of the rule of law is an incredibly important umbrella that surrounds not only this courtroom, but everybody who is participating in the circles that surround this courtroom.

I travel a lot and one of the things that Lehman did for me is that it showed me that insolvency isn't just what we practice here in accordance with the United States Bankruptcy Code, but an interconnected system that doesn't always synchronize. And one of the great lessons of Lehman

is not what we can do internally in the United States, but how we can better harmonize what goes on here throughout the world, because the problems of global SIFIs represent global problems and at the moment we don't have a global solution, despite best efforts.

So I guess my last word is we've done a great job, but we have a lot more to do. And thank you so much for inviting me --

THE COURT: Thank you, Judge Peck.

JUDGE PECK: -- to be here today.

THE COURT: Thank you all.

(Whereupon, these proceedings concluded at 11:33 AM)

C E R T I F I C A T I O N

We, Nicole Yawn and Tracey Williams, certify that the foregoing transcript is a true and accurate record of the proceedings.

Nicole Yawn

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